

STATE OF MONTANA
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
MINUTES OF THE
BOARD OF OIL AND GAS CONSERVATION MEETING AND PUBLIC HEARING
August 9 & 10, 2017

CALL TO ORDER

The regular business meeting of the Montana Board of Oil and Gas Conservation was called to order by Chairman Ron Efta at 2:00 p.m., Wednesday, August 9, 2017, at its office at 2535 St. Johns Avenue in Billings, Montana. Board members present were Chairman Ron Efta, Steven Durrett, Paul Gatzemeier, Mac McDermott, Peggy Ames-Nerud, Dennis Trudell, and Corey Welter. Staff present was Jennifer Breton, John Gizicki, Jim Halvorson George Hudak, Ben Jones, Dave Popp, Erin Ricci, and Rob Stutz.

APPROVAL OF MINUTES

A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the minutes of the June 14, 2017, business meeting.

PUBLIC COMMENT ON AGENDA AND NON-AGENDA ITEMS

Deborah Hansen, member of Northern Plains Resource Council Oil and Gas Task Force (NPRC) read a letter relating to the hydraulic fracturing chemical disclosure rule. NPRC encouraged the Board to hold hearings in Billings, Columbus, and Sidney for public input. Ms. Hansen's letter is attached as Exhibit 1.

Mr. Efta stated Billings and Columbus are only 40 miles apart. Why not include another area of Montana that is impacted by oil and gas activity? Mr. Efta suggested the listening session be held in the Cut Bank / Shelby area.

RULEMAKING PROCEDURES

Mr. Stutz reviewed MEIC's letter to the Board that requested the Board address additional hydraulic fracturing issues during rulemaking that were not included in SB299 and for the Board to hold listening sessions for land owners and others affected by hydraulic fracturing in Billings, Columbus, and Sidney. The letter is attached as Exhibit 2.

Mr. Halvorson noted the listening sessions would take place before the formal rulemaking process has started. The Board does not have a legal obligation to hold the listening sessions.

The Board could create a committee to help with the listening sessions and the rulemaking process or the Board could hold listening sessions without a committee. When the Board established a committee, the committee could participate in drafting the rule.

Mr. Efta noted the listening session will have an outline of what will be covered and encouraged the oil and gas industry to participate in the listening sessions.

Mr. Welter thought the listening session will help determine the scope of the hydraulic fracturing rule.

Mr. Halvorson recommended the listening sessions be held in Billings, Sidney, and Shelby / Cut Bank area. A timeline will need to be established, venues booked, and notice given to the public.

Mr. Welter suggested the Shelby / Cut Bank session should take place first, because winter comes early to that part of the state.

Mr. Stutz stated that the listening sessions are not part of the formal rulemaking process. During the formal rulemaking process, the public will have the opportunity to comment on the specific rule.

Ms. Ames-Nerud liked the committee approach that was used during the drilling notification rule. It was very efficient and the listening sessions will let the committee know what the public wants.

Mr. Stutz noted that if there are four or more Board members that attend a session, the session would have to be noticed as a Board meeting, since there would be a Board quorum. Board staff could also run the session and take notes for the Board members, so the members could just attend the sessions.

Motion: Mr. Durrett made the motion to direct staff to schedule three meeting in Billing, Shelby / Cut Bank area, and Sidney prior to the end of the year. Mr. Welter seconded and the motion passed unanimously.

There will be a draft schedule that will go out to Board members to make sure there are no scheduling conflicts.

Mr. Halvorson stated the hydraulic fracturing bill, SB 299, is effective on October 1, 2017. To comply with statutory changes, Board staff created new forms that are ready to use. With the new changes, the effects on staff work load is unknown.

PROPOSED HEARING SCHEDULE FOR 2018

Mrs. Breton presented the proposed 2018 schedule, attached as Exhibit 3. The proposed dates for the 2018 public hearing schedule are:

- February 14-15, 2018
- April 18-19, 2018
- June 13-14, 2018
- August 8-9, 2018
- October 3-4, 2018
- December 12-13, 2018

FINANCIAL REPORT

Mrs. Breton discussed the financial statement, attached as Exhibit 4.

PLUGGING AND RECLAMATION PROGRAM UPDATE

Mr. Halvorson reviewed Mr. Popp's plugging project summary, attached as Exhibit 5.

BOND SUMMARY & INCIDENT REPORT

Mr. Halvorson presented the bond report and the incident report, attached as Exhibits 6 and 7.

DOCKET SUMMARY

Mr. Halvorson presented the docket summary, attached as Exhibit 8.

GAS FLARING EXCEPTIONS

Mr. Jones discussed the gas flaring report, attached as Exhibit 9. There are four wells flaring in excess of 100 MCFG/day and three exception requests at this time. The exception requests are for Continental Resources, Inc. and Whiting Oil and Gas Corporation and are due to insufficient pipeline/plant compression. Mr. Jones recommended a six-month flaring exception for these three wells.

Motion: Mr. Gatzemeier made the motion to approve the recommendation. Mr. Trudell seconded and the motion passed unanimously.

Petro-Hunt, LLC (Petro-Hunt) had two wells flaring over the 100 MCFG/day limit without an exception. According to the policy, Petro-Hunt was assessed a \$250 delinquent flaring penalty.

STAFF REPORTS

Rob Stutz

Mr. Stutz gave a litigation update in the MEIC / Earthjustice lawsuit against the Board. The court has issued a stay of litigation, so the legal process has been halted since the Board is undergoing rulemaking to the chemical disclosure rule. An update to the court is required to be filed by August 24, 2017.

Jim Halvorson

Mr. Halvorson provided an overview of his meeting with the Public Service Commission regarding gas storage units.

NPRC is hosting a welcome reception for newly confirmed Board members, staff, and anyone else interested on Wednesday, August 9, 2017, at 5:00 p.m. This will take place at Home on the Range, 220 South 27th Street in Billings, Montana.

OTHER BUSINESS

No other business discussed.

PUBLIC HEARING

The Board reconvened on Thursday, August 10, 2017, at 8:00 a.m. at the Board's hearing room at its office at 2535 St. Johns Avenue in Billings, Montana, to hear the matters docketed for public hearing. As a result of the discussion, testimony, technical data, and other evidence placed before the Board, the following action was taken in each matter.

Docket 33-2017 – The application of St. Croix Operating, Inc. was withdrawn.

Docket 34-2017 – The application of McCartney Family Mineral Trust was continued to the October 2017 hearing.

Docket 35-2017 – A motion was made by Mr. Durrett, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 35-2017.

Docket 36-2017 – A motion was made by Mr. Durrett, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 36-2017.

Docket 37-2017 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 37-2017.

Docket 38-2017 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 38-2017.

Docket 39-2017 – A motion was made by Mr. Welter, seconded by Ms. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 39-2017.

Docket 40-2017 – A motion was made by Mr. Welter, seconded by Ms. Ames-Nerud and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 40-2017.

Docket 41-2017 – A motion was made by Mr. Durrett, seconded by Mr. Welter and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 41-2017.

Docket 42-2017 – A motion was made by Mr. Gatzemeier, seconded by Mr. Trudell and unanimously passed, to approve the application of Kraken Oil & Gas LLC as set forth in Board Order 42-2017.

Docket 43-2017 – A motion was made by Ms. Ames-Nerud, seconded by Mr. Durrett and unanimously passed, to approve the application of Briscoe Petroleum, LLC as set forth in Board Order 43-2017.

Docket 44-2017 – The application of Cline Production Company was continued to the October 2017 hearing.

Docket 19-2017 – A motion was made by Ms. Ames-Nerud, seconded by Mr. Welter and unanimously passed, to approve the application of Enerplus Resources USA Corporation as set forth in Board Order 44-2017.

Docket 45-2017 – A motion was made by Mr. Welter, seconded by Mr. Gatzemeier and unanimously passed to have Black Gold Energy Resource Development, LLC begin to plug and abandon and reclaim the well location or provide an alternative remedy to present to the Board for the Indian Mound 1 SWD well located in the NE¼SW¼SW¼ of Section 15, T23N, R55E, Richland County, Montana prior to the October 26, 2017, public hearing. The failure to begin to plug and abandon and reclaim the well or provide an alternative remedy as required by this order may result in forfeiture of the plugging and reclamation bond in its entirety, as permitted by § 82-11-123(5), MCA. A \$2,000 fine was assessed for failure to appear at the June 15, 2017, and August 10, 2017, public hearings. The \$250 fine for each day after December 1, 2016, that the violations remain unresolved will be increased to a \$500 fine for each day after August 10, 2017. The fine will remain in effect until compliance is confirmed by inspection. This is set forth in Board Order 45-2017.

Docket 46-2017 – A motion was made by Mr. Gatzemeier, seconded by Ms. Ames-Nerud and unanimously passed to assess Stealth Energy USA, Inc. a \$1,000 fine for failure to appear at the August 10, 2017, public hearing. Stealth Energy USA, Inc. is to appear at the October 26, 2017, public hearing and show-cause, if any it has, why additional penalties should not be assessed for failure to file delinquent production reports, to pay the penalty assessed for delinquent reporting, and to appear at the August 10, 2017, public hearing. This is set forth in Board Order 46-2017.

Docket 338-2014 – A motion was made by Mr. Trudell, seconded by Mr. Gatzemeier and unanimously passed, to continue Docket 338-2014, K2 America Corporation, until the October 26, 2017, public hearing. This is set forth in Board Order 47-2017.

Docket 49-2016 – A motion was made by Mr. Gatzemeier, seconded by Mr. Durrett and unanimously passed, to continue Docket 49-2016, Storm Cat Energy (USA) Operating Corporation, until the October 26, 2017, public hearing. This is set forth in Board Order 48-2017.

NEXT MEETING

The next business meeting of the Board will be Wednesday, October 25, 2017, at 2:00 p.m. at the Board's hearing room at its office at 2535 St. Johns Avenue in Billings, Montana. The next regular public hearing will be Thursday, October 26, 2017, beginning at 8:00 a.m. at the Board's hearing room at its office at the 2535 St. Johns Avenue in Billings, Montana. The filing deadline for the October 26, 2017, public hearing is September 21, 2017.

BOARD OF OIL AND GAS CONSERVATION
OF THE STATE OF MONTANA

Ronald S. Efta, Chairman
Steven Durrett, Vice-Chairman
Paul Gatzemeier, Board Member
Mac McDermott, Board Member
Peggy Ames-Nerud, Board Member
Dennis Trudell, Board Member
Corey Welter, Board Member

ATTEST:

Jennifer Breton, Program Specialist